

## FINANCIAL GOOD CORPORATE GOVERNANCE IN INDONESIA

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### ABSTRACT

*Good financial performance can be achieved by implementing of the Good Corporate Governance.(GCG). Due to the implementation of good GCG will provide a good impact on the companies financial performance and the national economy.*

*World Economic Forum Report 2011-2012 showed that the lack of availability of infrastructure is the second biggest problem after the inefficiency of government bureaucracy for businesses in doing business in Indonesia. Indonesia only ranks 76th out of 134 countries when measured in the quality of overall infrastructure rating. The Indonesia rating is under Singapore which is 2nd rank, Malaysia 26th rank, and Thailand 42nd rank.*

*Better implementation of GCG in the transport sector will affect the economy of the nation. The positive impact of the GCG implementation in the transportation sector can accelerate the increase in economic growth, prompting investors to invest in the transportation company in Indonesia.*

*This study examine the mechanisms of GCG which focused on the board of directors, independent of directors, the board of directors , and the size of the company . The objective of this study is whether the composition GCG in the company affects the company's financial performance. The better implementation of GCG companies in the transport sector will affect the national economy.*

*The positive impact of the implementation of GCG in the transport sector in Indonesia that would provide convenience in transportation and logistics activities will also increase Indonesia's economic growth, prompting investors to invest in the transport sector company .The results of this study showed GCG affect the company's financial performance. Suggestions for the company to increase the number of commissioners and the size of the company as well as more attention to the company's financial performance.*

**KEYWORDS:** *Good Corporate Governance, the Board of Directors, Independent Directors, the Board of Directors, Company Size & Financial Performance*

Original Article

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### INTRODUCTION

Transportation as one of the chain of distribution networks mobility of goods and passengers role in supporting, encouraging, and supporting all aspects of life both in the development of political, economic, social, cultural and defence security.

Growth in the transport sector will reflect the direct economic growth so that transport plays an important role and strategic, both macro and micro.

The important role of transport in the country's development is showed Indonesian transport characteristics are faced with low service quality, and quantity or limited service coverage.

World Economic Forum Report in 2011-2012 showed that the lack of availability of infrastructure is the second biggest problem after the inefficiency of government bureaucracy for businesses in doing business in Indonesia.

Indonesia only ranks 76<sup>th</sup> out of 134<sup>th</sup> countries. The rating under Singapore which ranks 2<sup>nd</sup>, Malaysia (26<sup>th</sup>), and Thailand (42<sup>nd</sup>).

**Table 1: Comparison of ASEAN Countries Infrastructure Quality Rating Years 2009-2011**

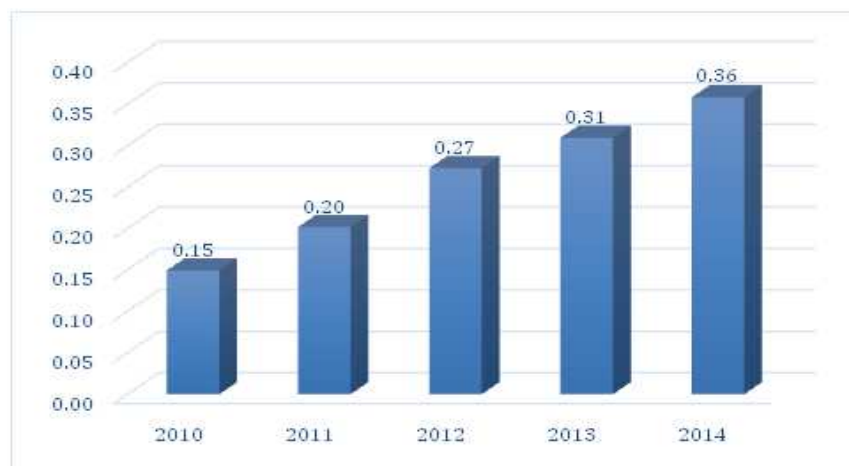
Pillar Infrastructure	Indonesia			Vietnam 2011	Thailand 2011	Philippines 2011	Malaysia 2011	Singapore 2011
	2009	2010	2011					
General	84	82	82	123	47	113	23	2
Street	94	84	83	123	37	100	18	2
Train	60	56	52	71	63	101	18	7
Port	95	96	103	111	47	123	15	1
Air transport	68	69	80	95	32	115	20	1

Sources: Competitiveness Global Report 2011-2012

Good financial performance can be achieved with the implementation of good corporate governance, or better known as the Good Corporate Governance (GCG). Implementation of GCG as a system of good corporate governance is an important thing.

Financial Services Authority (FSA) in 2014 on the ASEAN Economic Community (MEA) issuing a map of directions of corporate governance included 33 rules of good corporate governance which must be followed by public companies and issuers in Indonesia which aim to aligned the public company in Indonesia with the company in the ASEAN region and increase the amount of investment by giving investors the freedom to choose and put the money in the company with good GCG's implementation.

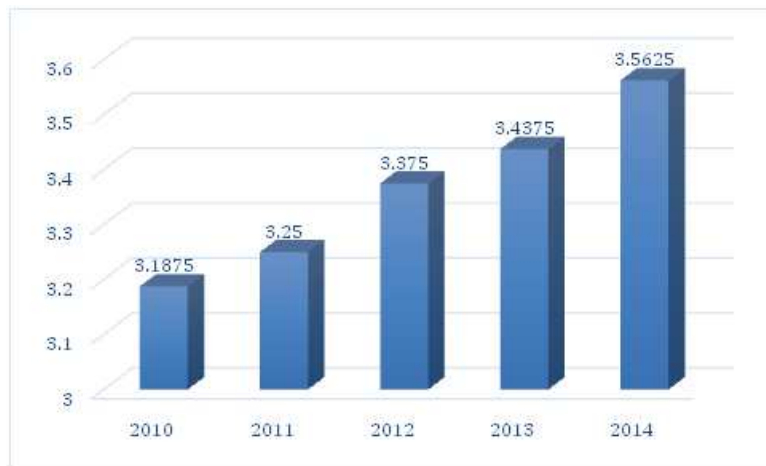
GCG of the companies implementation will either give a good impact on the financial performance of companies and on the national economy.



Source: idx.co.id (processed)

**Figure 1: Average Operating Profit Transport Sector Company Year 2010 - 2014**

The positive impact of the implementation of GCG in the transport sector, is its network infrastructure more adequate distribution of goods and the mobility of passengers who can certainly accelerate the increase in economic growth, it will prompting investors to invest in the company of transportation in Indonesia.



Source: *idx.co.id* (processed)

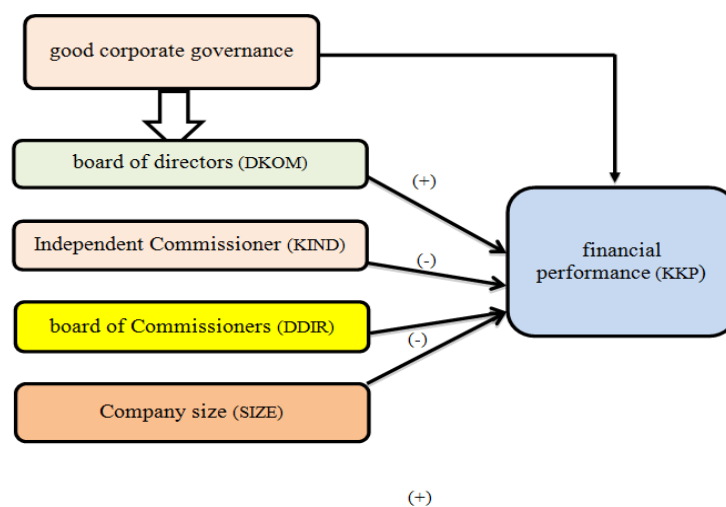
**Figure 2: Average B Board of Commissioners on Transport Sector Companies in Indonesia Stock Exchange in 2010-2014**

This study aims to investigate the mechanism of good corporate governance that focuses on the board of directors, independent directors, the board of directors, and the size of the company.

The better implementation of GCG companies in the transport sector will certainly affect the national economy better.

The purpose of this study was to determine the effect of good corporate governance, board of directors, independent directors, the board of directors and the size of the company's financial performance in transport company in Indonesia Stock Exchange in 2010-2014.

## DISCUSSIONS



**Figure 3: Model Research  $KKP = a + bDKOM_i + cKIND_i + dDDIR_i + fSIZE_i + \epsilon_i$**

- Board Of Directors
- Independent Commissioner
- Board of Commissioners
- Company Size

The Results of this Study are as Follows

Table 2

	Variable	Variable	Effect on Financial Performance
Good Corporate Governance	Board of Directors	X1	No
	Independent Commissioner	X2	The negative effect
	board of Commissioners	X3	The positive influence
	Company size	X4	The positive influence

#### Coefficient of Determination Results

Table 3

R-squared	0.565553	Mean dependent var	0.260500
Adjusted R-squared	0.726382	S.D. dependent var	0.242058
S.E. of regression	12.21290	Akaike info criterion	-0.195493
Sum squared resid	39.33995	Schwarz criterion	-0.046616
Log likelihood	12.81972	Hannan-Quinn criter.	-0.135804
F-statistic	12.79396	Durbin-Watson stat	1.894323
Prob(F-statistic)	0.000103		

Sumber: Output Reviews 8 (diolah 2016)

Independent variables provide 72.6% of information needed to predict the variation of the dependent variable or in other words, changes in the Company's Financial Performance influenced by the Board of Commissioners, Independent Commissioner, Board of Directors, and Size of the Company amounted to 72.6%, while 27.4% more influenced by other factors not included in this study.

Knowledge of independent directors on how the state of the company is also relatively limited and still shallow, making you less effective in improving the role of independent directors for the company's financial performance may be the board of commissioners and board of directors are not too expensive input or advice given by an independent commissioner.

#### CONCLUSIONS

In this study, companies with firm size showed greater contribution to the improvement of the company's financial performance. Because the company with total assets of great has been regarded as a stable company and can predict the amount of income to be received in the future.

## SUMMARY

- Board of commissioners is at the heart of good corporate governance which assigned to guarantee the implementation of corporate strategy, overseeing management in managing the company, and require the implementation of accountability.
- Commissioners provide input to the board of directors of the company.
- The Board of Commissioners has no direct authority on the company.
- The main function of the board of directors is to oversee the completeness and quality of information reports on the performance of the board of directors.
- The Board of Commissioners also in charge of representing the shareholders and has a role to monitor conflicts of interest in ensuring that the board of directors and management will contribute to maximize the company's financial performance.
- Advantage given the transportation sector in the Indonesian economy, the implementation of GCG in the transportation sector in Indonesia need to be considered.

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